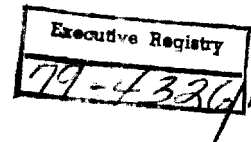


THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Officers

23 July 1979



MEMORANDUM FOR: Director of Central Intelligence

VIA : Deputy Director for National Foreign Assessment

National Intelligence Officer *AL*
for Warning

FROM : John H. Holdridge
National Intelligence Officer
for China

SUBJECT : Monthly Warning Assessment: China

1. The Indochina Situation

Despite reports of Sino-Vietnamese clashes analysts at the 18 July meeting did not anticipate renewed hostilities between China and Vietnam in the near term, and noted a considerable reduction in Chinese forces adjacent to Vietnam [redacted]

[redacted] It was suggested, however, that we should check on whether the Chinese may have established large supply dumps near the border to permit a rapid buildup if and when teaching Vietnam a second lesson is decided upon. Anti-Vietnamese resistance continues in Kampuchea sustained by supplies sent via Thailand, and Vietnamese forces are also encountering some logistical difficulties due to the weather. Vietnam nevertheless still has the military advantage, and as a result two Vietnamese divisions may have been withdrawn from Kampuchea until after the monsoon. Analysts did not rate highly the prospects for a political settlement in Kampuchea as matters now stand.

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[redacted] 25X1

No major Vietnamese move against Thailand was foreseen, although limited cross-border operations against Kampuchean forces in Thailand were considered possible. There was a discussion of China's promise to come to Thailand's aid in the event of a direct Vietnamese attack on Thailand with the observation made that this could involve a Chinese response in some other area than Vietnam, e.g., Laos. Mention was made of Laotian concern over presumed Chinese pressures, but analysts were not aware of evidence of Chinese military activity in the China-Laos border region of a nature sufficient to substantiate this concern. [REDACTED]

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[REDACTED] The refugee flow from Vietnam into China and the ASEAN countries and attendant criticism of Vietnam was not regarded as having any particular effect as yet on possible military actions by either China or Vietnam. Moscow is maintaining a high level of military aid and logistical support to Vietnam and [REDACTED] has established an intermittent naval and air presence in Vietnam; it was surmised, however, that Moscow and Hanoi have a mutual interest in not dramatizing this Soviet military presence--Hanoi, for example, may still hope for normalized relations with the US. Attention was called to the fact that China is now drilling for offshore oil in the South China Sea in or near where Chinese and Vietnamese territorial claims overlap, a development which could increase the chances of Sino-Vietnamese military clashes.

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2. Sino-Soviet Relations

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[REDACTED] the Chinese [REDACTED]

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[REDACTED] may be undertaking a relocation of provincial boundaries in Ningxia, Gansu, and Inner Monogolia which could result in Chinese military units in these areas coming under control of the Beijing Military Region. These moves were believed to reflect Chinese awareness of the recent increase in Soviet divisions in Mongolia and the USSR

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[REDACTED] Nevertheless, no one saw these actions as presaging imminent Sino-Soviet hostilities. The Chinese have been building up their forces against the USSR, notably in the Gansu Corridor, but as part of a long-term effort commencing well before the present situation and not related to any

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specific Soviet action.

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Analysts agreed that the references in Hua Guofeng's report to the NPC to judging only by "deeds" whether one is for or against hegemonism pointed to the likelihood of China taking a hard line on this issue in talks with the Soviet Union. Accordingly, no great improvement in Sino-Soviet relations was considered likely.

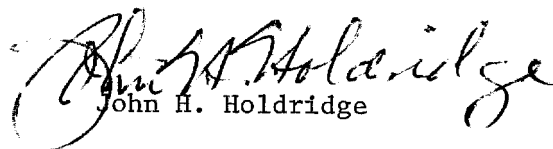
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3. The Internal Situation

The view was expressed that China's just-concluded NPC appeared to reaffirm most of the policies which have been attributed to Deng Xiaoping, including "emancipation of thinking" and "seeking truth from facts"--oblique ways of downgrading Mao Zedong's past role. Continuity in foreign and domestic policy could therefore be expected. On the other hand, the fact that Deng himself had played such a minor part in the NPC suggested that he had come under some degree of criticism--not so much on policy, regarding which there was now general acceptance, but more for failing to seek agreement from his senior colleagues before making major decisions. The thought was presented that Deng was not being pushed down (even though he may have been replaced by Geng Biao as PLA Chief of Staff), but rather pulled back to the level of his peers, where he would be subjected to a greater degree of discipline. It would be difficult to rule him out as a key leader, though, despite his remarks about wanting to retire two years from now and not travelling abroad until then.

On the stated increase of 20 percent over 1978 in China's 1979 military budget, two schools of thought emerged: one, that the increase could be accounted for mainly by the cost of the Vietnam fighting and that not too much in the way of purchases of new military items could be expected; the other maintaining that, in light of the NPC budget report's linking the 1979 increase both to the Vietnam fighting and to the need for strengthening China's

border defense (presumably against the USSR), an increase in military purchases would indeed occur. There was agreement that evidence was insufficient to point either way, and that we would await developments in connection with how China progressed in obtaining such items from abroad as the Harrier. One analyst observed that China's first nuclear-powered ballistic missile submarine, evidently a follow-on to the Han class, appears to be nearing completion.


John H. Holdridge

cc: DDCI